	Department of Administration **Policy – External** **Risk Management** **&** **Tort Defense Division** **Subject: Risk Retention** – The state policy on deductibles and payment for losses not covered by insurance. **This policy may be found in its entirety in the Risk Management Program Manual, Section XIV.**	**Number: FY01-04** **Effective Date: 8/98** **Approval: Final**

RISK RETENTION

Risk retention is the dollar amount of a loss assumed either by state agencies or paid out of the self-insurance fund that is not covered by commercial insurance.

Loss exposures that are ideally retained are those that are limited in individual size to an amount clearly within the participant's or self-insurance fund's retention capacity; and are unlikely to occur in larger numbers during a short period of time.

State participants and/or the self-insurance fund will retain loss exposures which do not meet the criteria as described in the previous section. The following guidelines shall apply:

a) Participants retain loss exposures when the potential exposure is small enough to be absorbed. Example: Comprehensive and collision insurance for state owned automobiles.

b) Participants retain the deductibles on commercial or self-insurance coverages unless Risk Management and Tort Defense specifically participates in the deductible and a prior written agreement is in existence.

   For example: State participants retain the first $1,000 of each property loss and the division satisfies the rest of the deductible before the commercial carrier is obligated. Participants retain all other deductibles on commercial policies procured at their request.

c) Participants retain uninsurable loss exposures such as damage due to wear and tear, latent defect, inherent vice, rust, rotting, mechanical breakdown, settling, cracking, animals, vermin or rodents, and pollutants.

Example: Water impact damage and wear and tear to a seawall.

The purpose of the self-insurance fund is to finance incidental property and loss exposures. It is not meant to remove each participant's duty to prevent and reduce losses, replace equipment, or properly maintain state owned property.

d) The self-insurance fund **MAY** pay in whole or in part, uninsured or retained losses on behalf of state participants. Consideration shall be given to the following:

- an agreement existed with the agency prior to the loss;
- the loss was not foreseeable or expected,
- the participant cannot provide or fulfill a vital service in the absence of indemnification from loss; and
- the loss retention is within the self-insurance fund's capacity.